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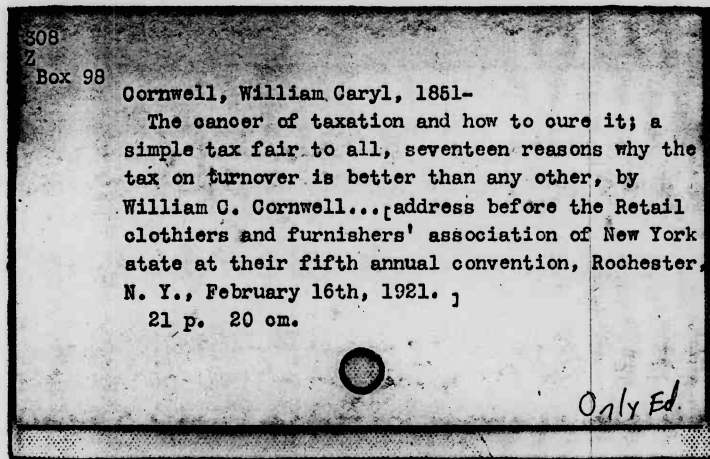
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# **The Cancer of Taxation and How to Cure It**

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## **A Simple Tax Fair to All**

**Seventeen Reasons Why the Tax on  
Turnover Is Better Than Any Other**

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**By**  
**WILLIAM C. CORNWELL**  
Editor The Bache Review

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**By**  
**WILLIAM C. CORNWELL**  
Editor The Bache Review

Clb Jan. 30, 1927.  
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## The Cancer of Taxation and How to Cure It

By WILLIAM C. CORNWELL  
Editor THE BACHE REVIEW

*Address before the Retail Clothiers and Furnishers'  
Association of New York State at their Fifth  
Annual Convention, Rochester, N. Y.,  
February 16th, 1921.*

**W**HY are we discussing the tax question here today?

It is because American taxation is a cankering sore eating into the vitals of American business.

It is because an erroneous system of taxation was fastened upon the country under the stimulation of war pressure, which has affected adversely, and in some cases ruinously, every person in the United States.

It is because business men have come finally to see the injustice and the destruction being wrought by these processes, and have made up their minds to have a change.

The plan was to make extra earnings and large incomes pay for the war.

The result has been that these extra earnings, usually laid up by conservative business men in times of profit, to be used to tide over bad times, have been eaten up by the Government, much of it squandered by an inefficient

administration, and thousands of firms now crippled by falling prices are being carried by banks and helped to work out a slow recovery.

And the large incomes, when the slaughter began, took flight into tax-exempt securities, and the new money ordinarily applied to help enterprise has vanished out of sight.

This, briefly, is a statement of the situation.

#### PRESENT SYSTEM DOOMED

The plan of the tax experts at Washington was to make those best able to bear the burden, pay the taxes.

This sounds good, but did it work out that way?

The public pretty generally understands now that it did not.

It understands that in the attempt to get out from under this terrific burden imposed upon a comparatively few, business used every effort to save itself; and to accomplish this, wherever possible the tax was added to the cost of things, with the result that prices on the average were increased 23 per cent.

Taxes will always be passed on wherever possible, and today the public is paying the tax, but the burden is unevenly distributed, vexatious to estimate, difficult to collect, and bound, now that reverses have come, to fall in amount far below requirements.

#### IMPOSSIBLE SUBSTITUTES

The present system has got to be abolished. What shall take its place?

The tax experts responsible for the present chaotic conditions have proposed some impossible expedients which simply add new miseries on old lines, to the destructive schedules already existing, and they have persuaded a few business men, on tax committees, to advocate such a program. It will only bring further fatality and plunge the country deeper into the swamps.

The Tax Bureau at Washington is overwhelmed with the difficulties of verification and investigation of the complicated statements filed with them. The Bureau is on the verge of collapse. It is three years behind in checking up. The statements of 1917 are not yet nearly verified, and an appalling mass of work for 1918, 1919 (and soon for 1920) lies before it.

There is but one way out; one source untapped; one great reservoir with almost unlimited supply; one method, simple, smooth-working, practicable and business-like, instantly available, easy and economically administered—the Tax on Turnover—which the business of the country is rising in its wrath to demand and which will be enacted in response to that demand because it will inestimably benefit every citizen of every class.

#### THE ONE WAY OUT

Under this system one per cent. is to be paid on the amount of gross sales of the country—paid by the seller and passed on to the consumer, but passed on in such an infinitely small amount everywhere, every

time, that it will no more be felt than the dew sparkling at sunrise.

It will be sunrise when this is done—sunrise for the American people, lifting them into the light of peaceful taxation after one of the darkest and most distressing nights of vexatious oppression that has ever been created by faulty legislation for any nation.

It is proposed in this system that at the expense of one dollar per year, everyone who expects to sell things shall take out a license. This puts him on the books of the Tax Collector of his district.

Once a month he foots up the gross amount of his sales for that month and sends a statement to the Collector with a check for one per cent. of such sales. Gross sales of less than \$500 per month or \$6,000 per year are exempt from tax. Thus labor is left out, as is a large part of the farming community, and the very small dealers.

This one per cent. he adds to the price of his goods just like rent or clerk hire, or any other regular overhead expenses of doing business. So he is really only a collector of the tax. It is passed on from raw material through manufacturer, wholesaler, retailer, until finally the consumer pays it.

But do not imagine that this adds any heavy burden. If any article requires ten turnovers and pays the one per cent. on each process, this does not add 10 per cent. to the cost.

On the contrary, on the eleven turnovers required, for instance in the manufacture of the rubber tire, the total amount added to

the cost to the consumer would be  $3\frac{1}{4}$  per cent.

And the average on all commodities would not be over  $2\frac{1}{2}$  per cent. on each.

So the price of everything under the Tax on Turnover would be materially reduced compared with present prices, which under the Excess Profits Tax are increased in cost over 23 per cent.

#### THE OBJECTORS

What, then, are the objections to this tax?

No tax that was ever conceived by the mind of man is free from *all* objections.

But the objections to the Turnover Tax are fewer and less important than those to any other known method.

One objection after another (some of them extremely trivial) has been urged by the opponents of this tax (and these opponents are mostly professionals, impractical and without business experience or judgment), and one after another these objections have been met with unanswerable arguments, and have been abandoned.

One of the objections to which the opponents are still clinging is that the Turnover Tax will give an unfair advantage to large companies which carry on within themselves more than one operation of manufacture, and would pay only one tax, while the smaller competitor who manufactured only one article would have to pay one per cent. on each article.

This body of opponents—and many of these are responsible for the present disastrous methods or interested in retain-

ing them—plead for the single-process manufacturer, for fear that he will be crushed to death by the small percentage of tax against him.

#### THE SINGLE-PROCESS MAN

Your single-process manufacturer is a power in himself. He has long competed successfully with the self-contained companies. He has resources of skill and of efficiency—of intimate knowledge of his process—that no larger company, with its many processes, can equal or compete with. He has survived and thriven and increased through many years, notwithstanding his powerful competitors. No diminutive one per cent. will shake his position, but if it is found necessary, the difference can be met by providing that the manufacture of each saleable article by the large combination shall be reported and taxed exactly as if made by the single producer.

There is no question but that this adjustment, if necessary, can be worked out equitably in the bill when it is drawn.

The same adjustment could be applied with regard to such organizations as chain stores, which manufacture goods or import them, and sell direct to the consumer; that is, a provision could be made for a payment of two per cent. in such cases instead of one per cent.

#### FACTS ABOUT THE NATIONAL INDUSTRIAL CONFERENCE

The professionals who oppose the Turn-over Tax are trying to prove that the business men of the country are against it. In

this effort they cite the instance of the National Industrial Conference Board.

This Board, a year or more ago, appointed a tax committee of a few business men to consider the general subject. These few men were all in favor of the Sales Tax when they were appointed, but they decided to call in some professional experts, some of them connected with the Treasury Department and who were all unalterably opposed to the Sales Tax.

After a few meetings, these experts had converted a majority of the committee of business men who did not understand the subject and could not answer their arguments.

I am reminded of the man who had some capital and went into business with another man who was a little shady, but who had had some experience.

When they got through, the experienced man had the capital and the other man had the experience.

The professional experts drew up a report against the Sales Tax, but in favor of abolishing the Excess Profits tax, and offering as a substitute some still more impractical taxes.

They then called a second conference of the general board, and presented their report. It met with so much opposition that it was turned back to them for revision and further report. Some months afterwards (and recently), they called a third conference, with about the same result, and the Taxation Report was finally withdrawn.



#### TAXATION COMMITTEE NOT REPRESENTATIVE

The professional experts are trying to have it inferred, because a voting majority of this Taxation Committee is personally against such a tax, that the whole National Industrial Board, which includes in its membership 25 industrial associations with thousands of members, is opposed to the Tax on Turnover.

The fact is that these thousands of members have not even been consulted, except perfunctorily, and that an influential minority of the Taxation Committee itself is against the report which was published.

Meantime, many of the large associations which are supposed to make up the National Industrial Conference, have voted against the report of the committee, and reported enthusiastically in favor of the Turnover Tax, and others, it is said, will do so soon.

This is all there is of the National Industrial Conference verdict, and yet some of the professionals are quoting this as an expression of a large influential body of business men.

#### SOCIAL INJUSTICE

In looking over the tax situation, it is not generally remembered that there are already in operation in this country some 51 sales taxes, but these are imposed in their most objectionable form. They are called excise or luxury taxes, but many of them most directly affect uncomfortably and unjustly the great mass of people. There are taxes

against soda water, candy, chewing gum, pipes, toilet soaps, tobacco, toilet and medicinal articles, admissions to movies and theatres; and a little higher up, automobiles, musical instruments, sporting goods, etc.

These taxes are, most of them, aimed at the innocent pleasures of the people, and are irritating, cumbersome, and many of them uncollectible, as far as the Government is concerned.

It is proposed to abolish all these, except tobacco, if the Turnover Tax is adopted.

At present these commodities are taxed at rates ranging from 3 to 13 per cent. Instead of abolishing them, the professional opponents propose to raise them.

The Turnover Tax would wipe them out and spread an infinitely small tax over everything—a tax which would be painless and invisible, and so small that it would hurt nobody.

#### THE TRUTH ABOUT THE TURNOVER TAX

The American Association of Wholesale Opticians issued last month a circular advocating the Tax on Turnover, and saying in part:

*"The present method of taxes penalizes thrift—the proposed plan of a Turnover Tax of one per cent. puts the load according to expenditures.*

*"A person who spends \$1,000 a month will be paying ten times the amount in taxes that a man of small means does, whose personal expenses are but \$100 a month.*

*"Under the present order of affairs, people of moderate income are paying, as the result*

*of pyramided taxes, many times what a general Gross Sales Tax of one per cent. would amount to."*

The circular then points out that the Turnover Tax proposes to exempt from the income tax those of moderate means, thus relieving this form of taxation from the most serious objection made to it—namely, that of imposing a tax on those of limited means and the least able to pay. It says:

*"The Secretary of the Treasury recommends to the Ways and Means Committee the increasing of excise taxes. The Tax Committee of the National Industrial Conference Board makes a similar recommendation, which includes the doubling of stamp taxes, increasing first-class postage 50 per cent., increasing present taxes on cigarettes 66 2-3 per cent., tobacco 33 1-3 per cent., a tax on sugar of 2 cents per pound and on tea 10 cents per pound, and in the face of this they object to the proposed Turnover Tax on the basis of social injustice. Their proposal is to make a bad matter worse, and the present complicated, discriminatory plan more of a mess and more unfair."*

#### YIELD AMPLE—NO OTHER WAY OUT

The Turnover Tax would raise from two billions to five or six billions of dollars, depending upon whether it is limited to goods, wares and merchandise, or extends more widely to all sales. This sum is ample to abolish the Excess Profits tax and the surtaxes, leaving a flat rate on incomes, and this latter would cover the problem of mak-

ing those best able, bear their just proportion of the burden.

The fact is, the Government has got to resort to a Sales Tax.

It can raise the vast sums it needs in no other way.

The Excess Profits tax is breaking down with the fading away of profits.

Incomes are falling or rapidly seeking tax-exempt protection.

Luxury taxes so-called, the faulty sales taxes of the present system, are becoming exceedingly distasteful to the Congressman's home voters, and they are protesting loudly against them. The Congressman has got to do something.

There is no other way to get the money, but, fortunately, it is the most excellent way—a way fair to all, lightening the load so that it will not be felt, and distributing it equally. The collection is simple and easy, and the yield large enough to relieve the country completely from the unbearable tax burdens which are oppressing and destroying its industrial motive power.

This is a problem in which each one of you is vitally interested.

It is a problem which can be solved right if 25 per cent. of the thinking people in the United States will do their duty.

What is that duty?

Reform can come only through Congress.

But Congressmen are anxious to do what the voters in their districts want.

It generally takes ten years for a Congressman to get to Washington.

He gets there through the majority vote of the citizens in his district.

Naturally, he wants to stay there. He will vote and work for the things that the better part of the constituents in his district think should be accomplished.

If you believe in this movement, it is your duty to tell your Congressman so.

He will listen if you speak, and heed if you are decided and emphatic in stating what you want.

If you approve this plan, write to your Congressman stating that you favor a small turnover or gross sales tax, in place of the present discriminating, unjust and complicated taxes.

State distinctly that you are opposed to the excess profits tax, to the surtaxes on incomes and to any special excise tax or tax on retail sales.

Urge that immediate attention be given to the tax subject.

If enough people do this, Congress will act.

This is a time for business men, like yourselves, to apply your business knowledge and experience to the *business* of raising money for our Government. Professionals and experts are responsible for the present destructive system. Business men must take charge and influence Congress to install new tax machinery on business principles, not to benefit business alone, but in the best interest of every citizen in the United States.

## A SIMPLE TAX FAIR TO ALL

### Seventeen Reasons Why the Tax on Turnover Is Better Than Any Other

By WILLIAM C. CORNWELL  
Editor THE BACHE REVIEW

*Address before the Kiwanis Club, Chester, Pa.,  
Wednesday, January 26, 1921.*

#### WHAT IS A TAX ON TURNOVER?

**F**IRST of all, I want to define the Turnover Tax which we are advocating.

The arrangement, as now outlined, would make it incumbent upon every person who expected to make any sales during the year, to take out a license at the Federal Tax Bureau in his locality, for which he should pay \$1.00 per year.

This would put him on the books of the Government. It would act as an enlistment in the Army of Support.

Once a month everyone who had made any sales would figure up the gross amount of such sales, and if they exceeded \$500 for that month, he would make out a check for one per cent. of the amount and send it along to the local collector, with an affidavit as to the gross amount sold. If his sales amounted to less than \$500 for that month, he would not send the check, but would forward a statement of the volume of the sales. At the end of the twelfth month, in addition to his monthly check, he would send in a statement showing the aggregate of his transactions for the year, with a check for the amount of

any under-payment or a claim for a refund if he should have overpaid, as it might turn out that some persons had paid on a monthly transaction of over \$500 but who had not sold the gross amount of \$6,000 per year, which would be the smallest amount on which a tax could be claimed.

#### THE ACME OF SIMPLICITY

Can you imagine anything more simple? Compare it with the present complicated and outrageously obscure questions and divisions and impossible calculations contained in the statements which you are required to fill out now—statements which you are compelled to employ experts to pass upon. The Treasury has calculated that it costs the people of this country \$100,000,000 a year for such services, and that it costs the Government \$25,000,000 a year to collect these taxes.

And a vast army of expert accountants has sprung up in this country who are extracting from the public from \$10,000 to \$100,000 a year in helping people to fill out their statements and to avoid paying any more than they possibly can and keep out of jail, and it is these accountants, who would lose their jobs if a simple, businesslike tax were adopted—these and a few Treasury economic experts ("college economists")—who are about the only ones opposing the Sales Tax.

#### ONE THING THE MATTER WITH BUSINESS

You gentlemen who are situated in the heart of industrial centers have been more or

less anxious, I imagine, about the situation in business. Now, the situation in business is largely due, among other things, to the fact that a vast amount of capital funds have been driven out of business investment into tax-exempt securities, to avoid being confiscated by the surtaxes, running up at the highest to 73 per cent.

A vast amount of other funds earned in business has also been confiscated by the Government under the Excess Profits Tax.

All industry is feeling the loss of these funds, which would have been used ordinarily to strengthen going business concerns and to tide them over the kind of a period of business depression through which we are now passing. The fact that these great sources of money supply have been closed has acted to make more tense the great credit strain through which the country has been passing for nearly a year.

High prices helped to produce inflation, and prices were kept high in many articles because of the present excessive taxes. Government experts estimate that nearly 25 per cent has been added to general prices by reason of the existing tax methods.

#### THE REBELLION AGAINST PRESENT TAXES

The feeling against the Excess Profits tax throughout the country has been so great that even Congress, which must have received communications from disgruntled business men and concerns all over the country, has decided that the Excess Profits tax must go.

But the surtaxes are equally guilty, and these two must be wiped out. The present tax situation is intolerable. No one can tell in advance what his taxes will be. The method of assessment is complicated, multiplied and obscure. The burden is unjustly distributed. The country's funds are being drained at the current sources, which have been used heretofore to support the great industrial machine.

The verdict of the country was recorded last November when a majority of 8,000,000 people registered their protest against the present government and its methods. It was the rebellion of business against extortion, and chief among the objects sought to be reformed and regenerated was the system of tax collecting.

#### WHAT THE COUNTRY WANTS

What does the country want, in taxation?

It wants the whole present system practically wiped out, and certainty, equality and simplicity substituted. In other words, it wants a business tax instead of the system foisted upon it by college professors and Treasury experts.

The Tax on Gross Sales or Turnover fully covers these requirements and its advocacy is sweeping the country.

There are some objections to it, but these are immaterial. There never yet was a tax imposed that did not have some opponents, but the objections to the Sales Tax are so infinitesimally less than those to the taxes

now in force that there is no possible comparison.

#### OBJECTIONS ANSWERED

The principal objection at first urged against the tax by the Treasury, the college experts and their converts, was that it was cumulative; that in passing on from one process of manufacture to another, a tax which would accumulate against the consumer (as all taxes are passed on) would be so great as to make it a burden.

The fact is, and we have had tables carefully worked out to prove it, that the utmost amount of tax to the consumer, on the finished article, is eleven turnovers (for instance, on the rubber tire) would not be over  $3\frac{1}{4}$  per cent., and the average on all articles would be not greater than  $2\frac{1}{2}$  per cent.

As I have told you, present taxes add nearly 25 per cent. to the cost of things to the people.

Another objection which is now being urged, the first one having been abandoned, is that large industries containing within themselves several processes of the manufacture of the raw material to the finished product would be unjustly benefited as against the single process maker.

This objection has little merit, as the small percentage of the tax would make the benefit inconsiderable, but all this could be fully met by imposing a tax of two per cent. on the self-contained corporation where three processes were perfected within it, or three per cent. where five or more processes were accomplished.

#### LARGE YIELD, BUT PAYMENT WITHOUT PAIN

It is true that under the exemption of \$6,000 per annum, many farmers (perhaps the majority of them), and all labor, would be exempt. But these would have to pay the tax passed on to them on everything they purchased, just as they do now—only to such a light degree that it would not be felt—and with this great difference: that now they pay from 15 per cent. to 40 per cent. loaded on to prices of things they buy.

The tax would produce ample funds to provide for abolishing the Excess Profits tax and all surtaxes, reducing the rate on income to a straight 5 per cent. and exempting all incomes under \$5,000.

The amount that could be raised by the Tax on Turnover under the most careful estimates would range from \$3,000,000,000 upward, and the estimate of the leader of the Senate Finance Committee, after a most thorough expert investigation, places the amount at \$4,500,000,000.

#### SUCCESSFUL IN OTHER COUNTRIES

This tax has been in operation in the Philippines for sixteen years, has been the greatest success, and everybody there is satisfied with it. France adopted it July 1st last year and its early results are justifying all expectations. Canada has it in operation, and it is so popular there that within a few weeks a long line of other taxes have been abolished.

#### SEVENTEEN REASONS FOR ADOPTING IT

Fewer objections have been raised to it than to any other known tax, and these objections are gradually dwindling away. No tax has such strong arguments in favor of it. Let me recite, in conclusion, a few of them:

It meets all the objections which now make the present system intolerable.

It is simple and easily understood, while the present system is distressingly complicated.

The collection of the tax is automatic and undisturbing.

The distribution of the burden is just; it falls like the rain. Those who consume the most and spend the most, pay the most taxes.

It will produce all the money needed. Present tax returns are disappearing as profits decline in business.

It goes on undisturbed by the swing from good times to hard times and back again. The variation in the spendings of the people in either kind of period is not sufficient to seriously affect the tax returns.

It will not increase prices except to a very small percentage—an average of two to three per cent. Now prices are boosted (or have been), by the Excess Profits tax, to an average of over 23 per cent. from present levels; therefore this tax will largely reduce prices.

Its effect upon business and the individual will be marvelous. There will be an incentive to save money for future business extension, as the tax collector cannot get it; and for the same reason it will wake up en-

terprise, competition and individual achievement. All these are being strangled to death under the present law.

Capital will no longer rush to cover under tax-exempt securities, which it is now doing to the extent of some \$600,000,000 at least, every year, where the recipients of this amount of income have sold all that they had and bought tax-free municipals. Much of this amount of yearly income will then be released for the industries of the country, instead of encouraging expenditures for extravagant or useless community improvements.

Extravagant spendings in carrying on business, now taking place because otherwise the Government would get the money, would cease, and old-fashioned business economy would again thrive. Enormous expenditures by the Government tax bureaus, including salaries of hundreds of thousands of employees (thus made unnecessary) would be stopped almost instantly, and these savings to the Government should reduce the budget.

The Philippines' experience is a shining example of the successful operation of the Sales Tax, and France and Canada contribute further forcible and favorable illustrations of its sound workings.

The tax load would be spread equally over the whole population, and would be borne without a hitch and without a murmur, because it would be passed along to millions of consumers who would pay the tax, nobody knowing it and nobody feeling it.

The taxpayer, harassed now with problems of what the ultimate tax will be, would not have to wait a year to find out under the Turnover Tax. He would know every day what his tax for that day was.

No tax ever invented is free from every objection, but the Tax on Gross Sales is nearer perfection than any other. It is simpler in operation, less expensive to calculate, works more smoothly, yields larger revenues, and bears less heavily upon every individual than any existing method.

If adopted, it will free America from the worst and most destructive operation which the Government has ever imposed upon its citizens. Whether or not this great boon in legislative taxation is ever enacted for the benefit of America depends upon the individual efforts of thinking American citizens, who have it in their power to impress upon Congress the necessity of dropping political expediency in this one matter at least, and acting in the unselfish interest of the whole country.

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